

# IDAHO OUTLOOK

## NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO

DIVISION OF FINANCIAL MANAGEMENT

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The Idaho Division of Financial Management (DFM) updates its current fiscal year General Fund revenue forecast each August. This revision incorporates changes that occurred since the previous winter's estimate was published. These changes include new laws that were passed during the state's legislative session and the previous year's actual general fund revenue. These two factors can be viewed as incremental adjustments to the revenue forecast. Another important factor is the Idaho economic outlook. The revised General Fund revenue projection for Fiscal Year 2006 that appears on the back page of this *Outlook* is based on the July 2005 *Idaho Economic Forecast*. Given the economic forecast's important role in determining this fiscal year's projected revenue, it is the focus of this month's *Idaho Outlook*.

Idaho's economy should continue expanding, but not at the white-hot pace of the 1990s. Instead, the Gem State economy will experience somewhat slower, but steady, growth. Specifically, Idaho nonfarm employment is anticipated to grow 2.5% in calendar year 2005 and average just under 2% growth in each year thereafter. Fueling this growth is the state's giant nongoods-producing employment sector. It should advance about 2.5% per year. The nongoods-producing sector can be split into three major categories: services, trade, and government. The services employment category's projected growth of well over 3% will make it the nongoods-producing sector's strongest performer. Second place will go to the trade category, whose employment is forecast to expand 2.2% in 2005 and by about 2.8% per year from 2006 to 2008. Idaho state and local government employment should expand less than 1% annually during the forecast period. The number of Idaho federal government jobs is expected to decline.

The job prospects for the state's goods-producing sector are less rosy compared to its nongoods-producing sector. After expanding 3% in 2005, the goods-producing sector is expected to shed about 2,700 jobs by 2008. Like the nongoods-producing sector, the goods-producing sector can be divided into three categories. They are manufacturing, mining, and construction.

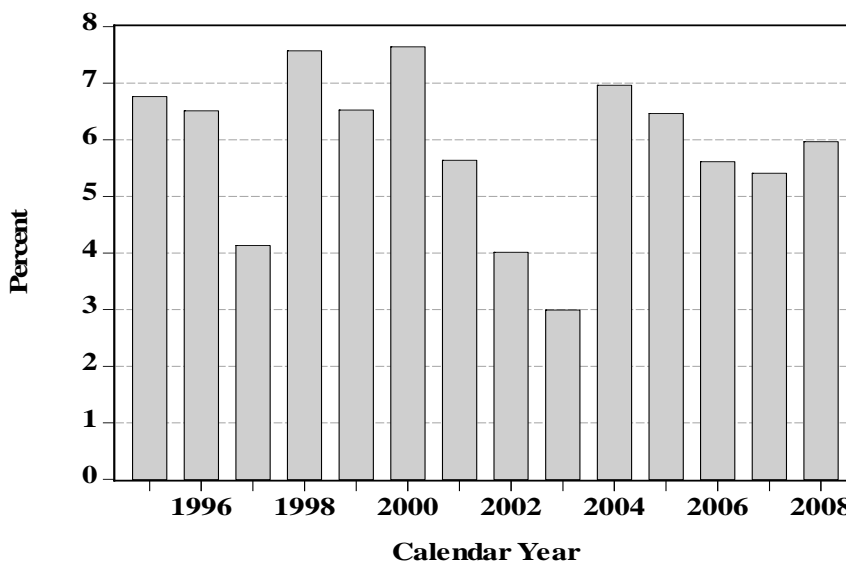
Manufacturing, the largest category, should expand slowly (0.6%) in 2005, then quicken its pace thereafter, and become this sector's strongest performer. The good news for the state's mining sector is its employment should expand again in 2005. The bad news is this will be its only increase during the forecast period. After hitting about 2,000, mining employment is expected to fall to about 1,400 by 2008. A hot housing market pushed Idaho construction employment towards an estimated 43,000 jobs during the first half of this year. However, it is nearing its apex. DFM anticipates construction employment will begin a gradual decent starting in the second half of 2005. Specifically, Idaho construction employment should go from a peak of around 43,000 jobs in the second quarter of 2005 to about 38,600 jobs by the last quarter of 2007. However, this decline is slight by historical standards. For instance, even after the anticipated declines, there should be more Idaho construction jobs at the end of 2007 than at the end of 2003.

Idaho personal income should be stronger in the next few years compared to this decade's early years. Idaho personal income got off to a tremendous start by growing 7.6% in 2000. However, it decelerated after that, and by 2003 managed to eke out just

3.0% growth—its weakest showing since 1986. Personal income got its second wind in 2004, and expanded by a robust 7.0%. Much of last year's strength occurred at year's end; personal income rose at an astounding 15.6% annual rate in 2004's fourth quarter alone. Personal income is expected to build on last year's success by expanding another 6.5% in 2005. After this year, Idaho personal income growth is expected to rise 5.6% in 2006, 5.4% in 2007, and 6.0% in 2008.

The current forecast is considerably more bullish than the forecast made a year ago. In DFM's July 2004 *Idaho Economic Forecast* it was predicted Idaho nonfarm employment would grow by less than 2% annually from 2003 to 2007 and personal income would advance just 4% per year. A supply of positive economic news since then has convinced us to raise our expectations for the Idaho economy. As a result, the current forecast shows Idaho nonfarm employment growing an average of 2.2% per year from 2003 to 2007 and personal income expanding at a 6.1% average annual pace. Under these conditions, the state's economy will continue its tradition of growing faster than its national counterpart over the next few years.

Idaho Nominal Personal Income Growth



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## General Fund Update

As of July 31, 2005

<u>Revenue Source</u>	<u>\$ Millions</u>		
	FY06 Executive Estimate <sup>3</sup>	DFM Predicted to Date	Actual Accrued to Date
Individual Income tax	1,089.9	75.5	76.3
Corporate Income tax	155.8	6.9	8.1
Sales Tax	827.8	91.2	95.1
Product Taxes <sup>1</sup>	23.1	2.0	2.1
Miscellaneous	107.1	11.8	10.7
<b>TOTAL GENERAL FUND<sup>2</sup></b>	<b>2,203.7</b>	<b>187.4</b>	<b>192.2</b>

<sup>1</sup> Product Taxes include beer, wine, liquor, tobacco and cigarette taxes  
<sup>2</sup> May not total due to rounding  
<sup>3</sup> Revised Estimate as of August 2005

This *Outlook* presents the mid-summer update of the FY 2006 General Fund revenue forecast. The current forecast is \$113.6 million (5.4%) above the forecast released last January. The bulk of this increase is due to much higher revenue in FY 2005 than was forecast last January (\$2,267.7 million actual versus \$2,156.9 million predicted). A smaller factor is a slight reduction in the rate of decline in the FY 2006 revenue forecast (-3.1% forecast last January versus -2.8% forecast currently). For more information on the updated forecast go to DFM's factoid of the month at <http://dfm.idaho.gov/>. Meanwhile, the first month of the new fiscal year has produced revenue that is \$4.8 million higher than expected. Strength in the big three (individual income, corporate income, and sales taxes) was

partially offset by weakness in the miscellaneous revenue category.

Individual income tax revenue was \$0.8 million higher than expected in July. On the collection side, filing payments were \$0.5 million higher than predicted and withholding collections were \$0.7 million higher than predicted. On the payout side, refunds were \$0.9 million higher than expected and miscellaneous diversions were \$0.6 million lower than expected.

Corporate income tax revenue was \$1.2 million higher than expected in July. Filing payments were \$0.2 million lower than predicted for the month, while quarterly estimated payments were \$0.7 million higher than predicted. Refund payments were \$0.7 million lower than expected for the month,

while miscellaneous diversions were on target.

Sales tax revenue was \$3.8 million higher than expected in July. Sales tax growth is expected to soften in the months ahead as the impacts of rising home prices and interest rates are felt in housing and durable goods sales.

Product taxes were on target in July, while miscellaneous revenue was \$1.0 million lower than expected for the month. The weakness is in interest earnings, and as such is believed to be strictly a matter of timing.